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January 12, 2016

To: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Sachi A. Hamai
Chief Executive Officer

Board of Supervisors
HILDA L. SOLIS
First District

MARK RIDLEY-THOMAS
Second District

SHEILA KUEHL
Third District

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Fourth District

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Fifth District

SACRAMENTO UPDATE

STATE BUDGET - PRELIMINARY ANALYSIS OF THE GOVERNOR'S FY 2016-17 PROPOSED BUDGET

OVERVIEW

On January 7, 2016, Governor Jerry Brown released his \$170.7 billion FY 2016-17 Proposed Budget, which provides \$122.6 billion in State General Fund expenditures, includes \$3.2 billion in total reserves, and projects a \$8.0 billion Rainy Day Fund balance by June 2017. The Administration reports that State revenues are expected to increase by \$3.7 billion in FY 2015-16 and \$2.2 billion in FY 2016-17 above the amounts projected in the FY 2015-16 State Budget Act.

STATE GENERAL FUND EXPENDITURES				
	FY 2015-16	FY 2016-17	Dollar Variance	Percentage Variance
Total Resources Available	\$121.2 billion	\$125.8 billion	\$4.6 billion	3.7%
Total Expenditures	\$116.1 billion	\$122.6 billion	\$6.5 billion	5.6%
Fund Balance/Reserve	\$5.1 billion	\$3.2 billion	-\$1.9 billion	-37.0%
Budget Stabilization/ Rainy Day Fund	\$4.5 billion	\$8.0 billion	\$3.5 billion	78.0%

"To Enrich Lives Through Effective And Caring Service"

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At his press conference, Governor Brown indicated that a strengthening State economy continues to push revenues higher, but he cautioned that maintaining a balanced budget for the long-term will be an ongoing challenge requiring fiscal restraint and prudence. The Governor also noted that since 2000 short periods of balanced State Budgets have been followed by massive budget shortfalls. The Governor also reported that the State still has billions of dollars in existing liabilities for deferred maintenance projects, infrastructure needs, and for State retiree health benefits, which must be addressed.

The Governor's Budget contains the following major proposals:

- Rainy Day Fund - directs an additional \$2.0 billion in Proposition 2 of 2014 funds to save additional funding for the next recession and to pay down the State's debt and liabilities. This would bring the Rainy Day Fund balance to \$8 billion by June 2017.
- Education - provides \$2.8 billion in additional funding for K-12 Education. Most of the funding will be directed to school districts serving low-income students, English language learners, and youth in foster care. The budget also proposes a new \$1.6 billion early education block grant that combines three existing programs to promote local flexibility, focusing on disadvantaged children and improved accountability.
- Transportation - proposes \$36.0 billion over the next decade for maintenance of highways and roads, expand public transit, and improve critical trade routes. The funding will be split evenly between State and local transportation priorities.
- Infrastructure - proposes a \$1.5 billion down payment to begin work for three State buildings, including the State Capitol Annex; \$879.0 million to accelerate the repayment of loans to transportation projects; and \$807.0 million for critical deferred maintenance at levees, State parks, community colleges, prisons, State hospitals and other critical facilities.
- Climate Change - proposes to invest \$3.1 billion in Cap and Trade expenditures for low-carbon transportation, affordable housing and sustainable communities, energy efficiencies, and high-speed rail.

Estimated County Impact

Based on a preliminary analysis of the information available at this time, it appears that the County will not experience any loss of funding or program reductions from any of the Governor's Budget proposals.

This office is working with affected departments and will keep the Board advised of any potential impact on the County once additional details of the Governor's Budget are released.

Attachment I provides a detail summary of the Governor's proposals of interest to the County.

Key Elements of the Governor's Budget of Major Interest to the County

Medi-Cal Expansion - County Indigent Savings. The Governor's Budget proposes to redirect \$564.5 million statewide in 1991 Health Realignment funding from counties to the State attributable to county indigent health care savings due to the implementation of the Medi-Cal expansion. The Administration indicates that this amount is based on the methodologies contained in AB 85 (Chapter 24, Statutes of 2013) which modified the distribution of the 1991 Health Realignment funding to capture and redirect county savings to the State. The Administration will revise this estimate in the May Budget Revision using updated data from counties. **The Department of Health Services indicates that no County funds will be redirected to the State at this time.**

In FY 2013-14, \$300.0 million in AB 85 funding was redirected from counties to the State, subject to a final reconciliation in 2016. The County's share of the original AB 85 estimate was \$88.0 million. The Governor's Budget estimates that the actual county savings redirected to the State in FY 2013-14 were \$151.7 million lower than anticipated. The Budget assumes that counties will be reimbursed for this amount in FY 2016-17.

Managed Care Organization Tax. As previously reported, in June 2015, the Governor convened a special session of the Legislature to enact a new Managed Care Organization (MCO) tax and/or alternative funding sources to provide: 1) at least \$1.1 billion annually to stabilize State General Fund costs for the Medi-Cal Program; 2) sufficient funding to continue the 7 percent restoration for In-Home Supportive Services (IHSS) hours; and 3) sufficient funding to provide additional rate increases for providers of Medi-Cal and developmental disability services.

The Governor's Budget proposes a tax reform package to extend the MCO tax for three years starting in FY 2016-17. Approximately \$236.0 million annually will be used to restore the 7 percent reduction in IHSS hours. The Administration also proposes to work with the developmental services community on solutions to the issues facing regional centers and service providers and indicates that targeted spending proposals for developmental services are expected to be funded from the proposed extension of the MCO tax.

Coordinated Care Initiative (CCI) Implementation. The Governor's Budget proposes to continue to implement the Coordinated Care Initiative (CCI) which was established under the FY 2012-13 State Budget Act to coordinate care for persons eligible for Medi-Cal and Medicare. According to the Governor's Budget, over the course of the next year, the Administration will seek ways to improve participation in the CCI program and extend an allowable MCO tax. If the tax is not extended and participation is not improved by January 2017, the CCI would cease operating effective January 2018.

Public Safety Programs. The Governor's Budget contains a number of items related to public safety programs of interest to the County, including the following:

- Correctional Facility Funding. The Governor's Budget specifically notes that the Administration remains committed to working with Los Angeles County to identify ways in which to create a more collaborative State and local corrections system. In addition, the Governor's Budget reports the State's commitment to assisting all counties address the treatment and infrastructure needs of housing and treating felony offenders. As such, the budget plan includes \$250.0 million for competitive grants to those counties that have previously received only a partial award or never received an award for State correctional facility funding. **This office, in collaboration with the Sheriff and impacted departments, will continue to work with the Administration to attempt to secure additional funding for correctional facility expansion, treatment programs for inmates, and infrastructure improvements.**
- 2011 Public Safety Realignment Funding. The Governor's Budget includes an increase in funding for the AB 109 Program from the estimated statewide base allocation of \$1.1 billion in FY 2015-16 to \$1.2 billion in FY 2016-17. The proposed budget estimates \$96.8 million statewide in FY 2015-16 growth funds to be distributed in September 2016, and anticipates \$103.4 million statewide in FY 2016-17 growth funds.
- Proposition 47 of 2014. The Governor's Budget reports that Proposition 47, which reduced certain property and drug crimes from felonies to misdemeanors, lowered the 2015-2016 prison population by approximately 4,700 inmates. As a result, the Department of Finance projects a statewide savings of \$29.3 million, which is to be spent on truancy, diversion, and victim services grant programs, including an estimated \$19.0 million statewide in FY 2016-17 for the local recidivism reduction grant program.

Exide Clean-up. The Governor's Budget proposes to allocate a total of \$8.5 million to the California Department of Toxic Substances Control to address the Exide issues. The allocation will provide funding in FY 2015-16 and FY 2016-17 for clean-up

efforts, testing, reporting, public outreach and oversight, among other things. **This office will work with the Department of Public Health and other affected departments to monitor and determine the impact of this proposal.**

Additional Items of Interest to the County

Of interest to the County, the Administration notes that recent Federal actions have created substantial fiscal uncertainty that could cost the State billions of dollars with regard to health care financing. These actions include:

- 2020 Medicaid Waiver - The Administration notes that California received Federal approval for a renewal of the 1115 Medicaid Waiver, Medi-Cal 2020. The Waiver will provide \$6.2 billion in Federal funding over five years. The Administration indicates that the Waiver reduced funding for public hospitals and could result in negative State General Fund impacts over the next few years.
- Managed Care Regulations - In June 2015, the Federal government released a proposed Medicaid managed care regulation. The Administration indicates that the proposed regulation could negatively impact California's Medi-Cal managed care programs and result in State General Fund costs potentially in the billions of dollars annually.
- Disproportionate Share Hospital Funding - The Administration notes that the Federal government indicated that it would implement a change in how California historically claimed Disproportionate Share Hospital funding for public safety net hospitals and that the change would likely be applied retroactively. According to the Administration, this change could result in tens of millions in lost revenue to public safety net hospitals and associated State General Fund costs over the next two years.

This office is working with the Department of Health Services to assess the potential impact of these Federal actions to the County.

We will continue to keep you advised.

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Attachments

c: All Department Heads
Legislative Strategist

Governor's FY 2016-17 Proposed Budget

Health Care

Medi-Cal Expansion - County Indigent Savings. The Governor's Budget proposes to redirect \$564.5 million statewide in 1991 Health Realignment funding from counties to the State attributable to county indigent health care savings due to the implementation of the Medi-Cal expansion. The Administration indicates that this amount is based on the methodologies contained in AB 85 (Chapter 24, Statutes of 2013) which modified the distribution of the 1991 Health Realignment funding to capture and redirect county savings to the State. The Administration will revise this estimate in the May Budget Revision using updated data from the counties. **The Department of Health Services indicates that no County funds will be redirected to the State at this time.**

In FY 2013-14, \$300.0 million in AB 85 funding was redirected from counties to the State, subject to a final reconciliation in 2016. The County's share of the original AB 85 estimate was \$88.0 million. The Governor's Budget estimates that the actual county savings redirected to the State in FY 2013-14 were \$151.7 million lower than anticipated. The Budget assumes that counties will be reimbursed for this amount in FY 2016-17.

Extension of Medi-Cal to Undocumented Children. The Governor's Budget provides \$182.0 million statewide to extend full-scope Medi-Cal benefits, effective May 1, 2016, to 170,000 undocumented children under 19 years of age as provided under SB 75 (Chapter 18, Statutes of 2015). The Department of Health Services has indicated that approximately 19,000 uninsured, immigrant children currently receiving health care services provided by the County will be eligible for Medi-Cal benefits under the expansion.

Managed Care Organization Tax. As previously reported, in June 2015, the Governor convened a special session of the Legislature to enact a new Managed Care Organization (MCO) tax and/or alternative funding to provide: 1) at least \$1.1 billion annually to stabilize State General Fund costs for the Medi-Cal Program; 2) sufficient funding to continue the 7 percent restoration for In-Home Supportive Services (IHSS) hours; and 3) sufficient funding to provide additional rate increases for providers of Medi-Cal and developmental disability services.

The Governor's Budget proposes a tax reform package to extend the MCO tax for three years starting in FY 2016-17. Approximately \$236.0 million annually will be used to restore the 7 percent reduction in IHSS hours. The Administration also proposes to work with the developmental services community on solutions to the issues facing regional centers and service providers, and indicates that targeted spending proposals for developmental services are expected to be funded from the proposed extension of the MCO tax.

Coordinated Care Initiative (CCI) Implementation. The Governor's Budget proposes to continue to implement the Coordinated Care Initiative (CCI) which was established in the FY 2012-13 State Budget Act to coordinate care for persons dually eligible for Medi-Cal and Medicare. However, the Governor's Budget indicates that over the course of the next year, the Administration will seek ways to improve participation in the CCI program and extend the MCO tax, as noted above. If the MCO tax is not extended and participation in the CCI pilot program is not improved by January 2017, the CCI would cease operating effective January 2018.

According to the Governor's Budget, if the MCO tax is not extended, the Administration projects State General Fund costs for the CCI program of approximately \$130.0 million in FY 2016-17 and beyond due to a number of factors. The Administration indicates that there is a potential for significantly increased State costs related to new Federal regulations that entitle providers to overtime compensation and the Maintenance of Effort (MOE) funding formula for the IHSS Program established as part of the CCI. Under the current IHSS MOE, program costs are capped for counties based on FY 2011-12 expenditure levels with an annual growth of 3.5 percent and the cost of any locally negotiated increase for provider wages and/or benefits. The cost cap applies to all 58 counties, and not only the counties implementing the CCI.

It is important to note that the success of the CCI is directly tied to the continuation of the County's IHSS MOE which was negotiated between the Administration and the California State Association of Counties, including the County. This office will continue to work with the Department of Public Social Services to closely monitor this issue and keep the Board advised of the progress of the CCI.

Public Health

Substance Use Disorder Treatment. The Governor's Budget proposes \$90.9 million (\$32.5 million State General Fund) for expanded residential treatment services under the new Drug Medi-Cal Organized Delivery System Waiver. The Administration anticipates that 50 counties statewide will opt-in to the Waiver by June 30, 2015, after which the FY 2016-17 allocations will be determined for qualifying counties.

Exide Clean-up. The Governor's Budget proposes to allocate a total of \$8.5 million to the Department of Toxic Substances Control to address Exide clean-up issues. The allocation will provide funding in FY 2015-16 and FY 2016-17 for clean-up efforts, testing, reporting, public outreach and oversight, among other things. **This office will work with the Department of Public Health and other affected departments to monitor and determine the impact of this proposal.**

Medical Marijuana Regulation and Safety Act. The Governor's Budget proposes \$5.4 million in FY 2015-16 and \$24.6 million in FY 2016-17 for the Medical Marijuana Regulation and Safety Act of 2015. The funding will be allocated to various State agencies that will regulate the licensing and enforcement of the cultivation,

manufacture, transportation, storage, and distribution of medical marijuana, including the Departments of Consumer Affairs, Public Health, Food and Agriculture, Pesticide Regulation, Fish and Wildlife, and the State Water Resources Control Board.

Mental Health

Proposition 63. The Governor's Budget does not include any proposals related to the Senate Budget Proposal "No Place Like Home" which proposes to re-purpose Mental Health Services Act (Proposition 63) funding leveraged with other local, State and Federal funds, to secure a \$2.0 billion bond to construct permanent supportive housing for chronically homeless persons with mental illness.

Social Services

In-Home Supportive Services (IHSS) Provider Overtime. The Governor's Budget allocates \$942.0 million statewide (\$443.8 million State General Fund) in FY 2016-17, and annually thereafter, to implement the U.S. Department of Labor's regulations that require overtime pay for IHSS providers. According to the Governor's Budget, implementation of the Federal overtime rules for IHSS providers is anticipated to begin February 1, 2016.

County Medi-Cal Administration. The Governor's Budget includes an additional \$169.9 million (\$57.0 million State General Fund) in FY 2016-17 and FY 2017-18 for counties to determine Medi-Cal eligibility on behalf of the State. According to the Governor's Budget, the Medi-Cal caseload continues to grow significantly due to the implementation of the Affordable Care Act and the system built to automate eligibility determinations, which is not yet functional. The Governor's Budget notes that once this eligibility system is stabilized, the State will conduct time studies to inform a new budgeting methodology for County Medi-Cal Administration.

Supplemental Security Income/State Supplemental Payment (SSI/SSP) Program. The Governor's Budget proposes to pass through an annual Federal cost-of-living adjustment to the SSI portion of the grant program based on the Consumer Price Index, which is projected to increase by 1.7 percent effective January 1, 2017. In addition, the Governor's budget proposes an increase to the SSP portion of the grant, equivalent to the California Necessities Index, which is projected to be 2.96 percent. This would result in maximum SSI/SSP monthly grant level increases of \$17 and \$31 for individuals and couples, respectively, effective January 2017. The Cash Assistance Program for Immigrants (CAPI) benefits are equivalent to SSI/SSP benefits, less \$10 per month for individuals and \$20 per month for couples. The Department of Social Services reports that as of November 2015, there were 6,594 individuals in Los Angeles receiving CAPI benefits.

Child Welfare Continuum of Care Reform. The Governor's Budget provides \$94.9 million statewide (\$60.9 million State General Fund) for county child welfare agencies, county probation departments, the California Department of Social Services,

and the California Department of Health Care Services to continue the implementation of the Child Welfare Continuum of Care Reform enacted under AB 403 (Chapter 773, Statutes of 2015). As previously reported, the reforms under this law emphasize home-based family care and a reduction in the number of foster youth in group home care, among other significant changes. **This office is working with affected departments to determine the potential County impact from this proposal.**

Early Education Block Grant. The Governor's Budget proposes a new \$1.6 billion early education block grant focusing on disadvantaged students for local educational agencies (LEA) that combines Proposition 98 funding from the State Preschool Program, transitional kindergarten, and the Preschool Quality Rating and Improvement System Grant. The funding would be distributed based on factors such as population and need to ensure that funds are provided equitably to schools with large populations of disadvantaged children; however, no LEA would receive less funding under the block grant than it received previously. According to the Governor's Budget, the Administration will engage stakeholders on the development of the block grant throughout the spring budget process to develop additional program details by the May Revision.

Public Safety

Correctional Facility Funding. The Governor's Budget specifically notes that the Administration remains committed to working with Los Angeles County to identify ways in which to create a more collaborative State and local corrections system, including exploring diversion programs and alternative placements for prison inmates who have six months of time left to serve. In addition, the budget plan confirms the State's commitment to assisting all counties address the treatment and infrastructure needs of housing and treating felony offenders. As such, the budget plan includes \$250.0 million for competitive grants to those counties that have previously received only a partial award or never received an award for State correctional facility funding. **This office, in collaboration with the Sheriff and impacted departments, will continue to work closely with the Administration to secure additional funding for correctional facility expansion, treatment programs for inmates, and infrastructure improvements.**

2011 Public Safety Realignment Funding. The Governor's Budget includes an increase in funding for the AB 109 Program from the estimated statewide base allocation of \$1.1 billion in FY 2015-16 to \$1.2 billion in FY 2016-17. The proposed budget estimates \$96.8 million statewide in FY 2015-16 growth funds, and anticipates \$103.4 million statewide in FY 2016-17 growth funds. Attachment II includes a summary of the 2011 Public Safety Realignment estimates across all accounts.

Community Corrections Partnership Planning Grants. The Governor's Budget includes \$7.9 million in one-time planning grants to assist local Community Corrections Partnerships with ongoing AB 109 implementation efforts. As in past years, the grants would be allocated based on county population, with receipt conditioned upon reporting of survey information to the Board of State and Community Corrections.

Proposition 47 of 2014. The Administration reports that Proposition 47, which reduced certain property and drug crimes from felonies to misdemeanors, lowered the 2015-2016 State prison population by approximately 4,700 inmates. As a result, the State Department of Finance projects a statewide savings of \$29.3 million. This estimate accounts for the State correctional savings and the State cost increases, specifically, the temporary increases in parole caseloads and trial court workload associated with resentencing. Pursuant to the initiative, the resulting savings will be allocated to the following grant programs:

- \$2.9 million for victim services programs (10 percent);
- \$7.3 million for truancy programs (25 percent); and
- \$19.0 million for local recidivism prevention programs (65 percent).

In subsequent years, on-going State savings from Proposition 47 are projected to be approximately \$57.0 million annually.

Community Corrections Performance Incentive Grant. The Governor's Budget includes \$129.7 million statewide for the Community Corrections Performance Incentive Grant SB 678 (Chapter 608, Statutes of 2009), which provides county probation departments performance-based funding based on a percentage of State General Fund savings when county probation departments successfully reduce the number of adult felony probationers going to State prison. This represents a \$4.6 million statewide increase from the FY 2015-16 State Budget Act, which provided \$125.1 million in SB 678 payments to county probation departments.

Three-Judge Panel and Prison Population Reduction. The Administration reports that as of December 9, 2015, the prison population was at 136.0 percent of design capacity, which is below the February 2016 benchmark set by the Federal three-judge panel's population reduction order. Because the inmate population is projected to grow in future years, the State plans to continue current population reduction measures, bed expansions, and in-state and out-of-state contract beds at current levels in order to remain below the 137.5 percent population cap. In addition, the State plans to implement additional population reduction measures, including:

- expanding the Alternative Custody Program to male inmates;
- expanding the Youth Offender Parole Program to youth offenders up through the age of 22; and
- creating unique community re-entry programs for those who served long-term or life sentences.

Offender Rehabilitation Siting Incentive Grants. The Governor's Budget proposes \$25.0 million for incentive payments to cities and/or counties that approve, between January 1, 2016 and June 30, 2017, new long-term permits for hard-to-site facilities that would provide offenders with rehabilitation services, such as substance use disorder treatment, mental health, and re-entry programming. The Administration plans to work

with city and county stakeholders during the spring of 2016 to develop an allocation methodology for this program.

Racial and Identity Profiling Act of 2015. The Racial and Identity Profiling Act, as enacted by AB 953 (Chapter 466, Statutes of 2015), mandates local law enforcement agencies to annually report detailed information on all stops made by peace officers to the Attorney General beginning March 1, 2018. The Governor's Budget includes \$10.0 million statewide to allocate to local law enforcement agencies in anticipation of increases in citizen complaint reporting activities. During the spring of 2016, the Administration will work with law enforcement entities to develop a funding allocation method as well as a program that limits mandate reimbursement claims.

Fire Prevention. The Governor's Budget provides an increase of \$102.0 million for State fire prevention activities, including retaining seasonal firefighters beyond the normal budgeted fire season, providing additional defensible space inspectors, enhancing air attack capabilities to suppress wildfires, and improving the efficiency of CAL FIRE's emergency response capabilities. The budget plan includes \$150.0 million for CAL FIRE to support forest health programs that reduce greenhouse gas emissions, reforestation projects, pest and diseased tree removal, and long-term protection of forested lands vulnerable to conversion.

Trial Court Funding. The Governor's Budget includes an augmentation of \$20.0 million for discretionary trial court operations. The budget plan includes \$21.4 million to reflect the projected caseload of Proposition 47 resentencing hearings in FY 2016-17. By the end of FY 2016-17, the Administration expects that the courts' Proposition 47 workload will be significantly reduced or eliminated.

City Law Enforcement Grants. The Governor's Budget allocates \$26.0 million statewide in grant funding to local law enforcement agencies for the purpose of building positive rapport between law enforcement officials and homeless, mentally ill, and high-risk youth populations.

General Government

New Motor Voter Program. The Governor's Budget proposes \$3.9 million to create an automatic voter registration process that is integrated with the Department of Motor Vehicles (DMV) driver's license application and renewal process. The proposed funding is related to the California New Motor Voter Program authorized under **County-supported AB 1461** (Chapter 729, Statutes of 2015) which provides for automatic voter registration based on DMV records.

TRANSPORTATION

Transportation Infrastructure. The Governor's Budget estimates that the deferred maintenance on existing State infrastructure including roads, highways, bridges and facilities totals \$77.0 billion. The annual maintenance and repairs to these facilities are

billions of dollars more than can be funded annually within existing resources. The Governor's Budget notes that the State must address deferred maintenance in its transportation system through expanded and ongoing funding sources.

To address State and local transportation needs, the Legislature has convened a conference committee as part of the Special Session on transportation. The Administration remains hopeful the conference committee will adopt a comprehensive transportation funding package in 2016 that reflects the following principles:

- Focuses new revenue primarily on "fix-it-first" investments to repair neighborhood roads and State highways and bridges;
- Makes key investments in trade corridors to support continued economic growth and implementing a sustainable freight strategy;
- Provides funding to match locally generated funds for high-priority transportation projects;
- Continues measures to improve performance, accountability and efficiency at Caltrans;
- Invests in passenger rail and public transit modernization and improvement; and
- Avoids an impact on the precariously balanced State General Fund.

For FY 2016-17, the Governor's Budget includes \$1.7 billion (\$1.6 billion from new revenues and \$173.0 million from loan repayments) for:

- Local streets and roads - \$490.0 million;
- Low carbon road program - \$100.0 million;
- Transit and intercity rail capital program - \$409.0 million;
- Highway repairs and maintenance - \$515.0 million; and
- Trade corridor improvements - \$211.0 million.

The Governor's Budget seeks to provide \$36.0 billion over the next decade to improve the maintenance of highways and roads, expand public transit, and improve critical trade routes. Revenues would be split evenly between State and local transportation priorities. Specifically, the proposal includes annualized resources as follows:

- Road Improvement Charge - \$2.0 billion from a new \$65 fee on all vehicles, including hybrids and electrics.
- Stabilize Gasoline Excise Tax - \$500.0 million by setting the gasoline excise tax beginning in 2017-18 at the historical average of 18 cents and eliminating the current annual adjustments. The broader gasoline tax would then be adjusted annually for inflation to maintain purchasing power.

- Diesel Excise Tax - \$500.0 million from an 11-cent increase in the diesel excise tax beginning in FY 2017-18. This tax would also be adjusted annually for inflation to maintain purchasing power.
- Cap and Trade - \$500.0 million in additional cap and trade proceeds.
- Caltrans Efficiencies - \$100.0 million in cost-saving reforms.

Over the next ten years, the \$36.0 billion transportation package would provide \$16.2 billion for highway repairs and maintenance, and invest \$2.3 billion in the State's trade corridors. Local roads would receive more than \$13.5 billion in new funding. Transit and intercity rail will receive over \$4.0 billion in additional funding. Because the State's disadvantaged communities are often located in areas affected by poor air quality, a minimum of \$2.0 billion (50 percent) of these funds will be spent on projects that benefit these communities.

The Governor's Budget includes an \$879.0 million commitment over the next four years from the State General Fund to accelerate the repayment of loans to support additional investments in the Transit and Intercity Rail Capital Program, trade corridor improvements, and repairs on local roads and the State highway system projects.

The Department of Public Works reports that in FY 2016-17, the transportation funding package would provide the County with approximately \$34.0 million in additional revenue that will soften the impact of the recent decline in gas tax revenues (see below). Thereafter, the County would receive approximately \$100.0 million in additional annual funding to address the immediate backlog of maintenance, repair, and rehabilitation needs of the County's streets and highways and to sustain ongoing state of good repair practices in future years.

Highway User Tax Account (HUTA) Revenues

The Highway User Tax Account revenues (gas tax) are a prime source of revenue for the construction, maintenance, and operation of streets and roadways throughout the unincorporated areas of the County. Fuels subject to the gas tax include gasoline, natural gas, and blends of gasoline and alcohol sold for use on public streets and highways. The Governor's Budget forecasts that the excise tax on gasoline will be 27.8 cents per gallon in FY 2016-17, a decrease from a high of 39.5 cents in FY 2013-14.

The California State Association of Counties (CSAC) reports that revenues in the Highway User Tax Account will decrease by more than 25 percent in only two years, and that county shares of this revenue have decreased by an even greater amount, as the funding transferred out to pay for transportation bond debt service has continued to grow as overall gas tax revenue decreases.

For FY 2015-16, the Department of Public Works projects \$150.0 million in gas tax revenues, a decline of \$40.0 million from FY 2014-15, and \$59.0 million from FY 2013-14. **The DPW notes that FY 2016-17 revenues could be at least \$5.0 million less than FY 2015-16.** The trend of lower Highway User Tax Account revenues is expected to continue for the next two to three years. These reductions will severely hamper DPW's ability to deliver ongoing operation and maintenance programs critical for the safety and quality of life of our communities and to implement needed infrastructure repairs and improvements. **This office will work with DPW to further analyze the gas tax revenue estimates and report back on the potential impact on County operations and programs.**

Environment and Natural Resources

Climate Change. In 2015, the Governor announced five key targets to reduce greenhouse gas emissions: 1) increase electricity derived from renewable sources to 50 percent; 2) reduce petroleum use in cars and trucks by up to 50 percent; 3) double the rate of energy efficiency savings in existing buildings, and make heating fuels cleaner; 4) reduce the release of short-lived climate pollutants, such as methane and black carbon; and 5) increase carbon sequestration on farms and rangelands, and in forests and wetlands. These targets were subsequently enacted in the Clean Energy and Pollution Reduction Act of 2015 (SB 350, Chapter 547, Statutes of 2015), which establishes targets to increase retail sales of renewable electricity to 50 percent by 2030, and double the energy efficiency savings in electricity and natural gas end uses by 2030.

The Governor's Budget supports the State's long-term greenhouse gas emission reduction goals with a \$3.1 billion Cap and Trade expenditure plan that would invest in programs that support clean transportation, reduce short-lived climate pollutants, protect natural ecosystems, and benefit disadvantaged communities. The Cap and Trade expenditure plan includes the balance of auction proceeds that were not appropriated in FY 2015-16, as well as the expenditure of projected proceeds in FY 2016-17. Further, the plan would expend at least 10 percent of the proceeds within disadvantaged communities and at least 25 percent of the proceeds to projects that benefit those communities.

Specifically, \$400.0 million is proposed for the Affordable Housing and Sustainable Communities Program; \$200.0 million for the Transit and Intercity Rail Capital Program; \$100.0 million for the Low Carbon Transit Operations Program; \$500.0 million for the High-Speed Rail Project; \$1.025 billion for the 50 Percent Reduction in Petroleum Use Strategies; \$100.0 million for local climate action programs; \$215.0 million for reduction of short-lived climate pollutants; \$150.0 million for the State's Water Action Plan; \$200.0 million for carbon sequestration in forested land; and \$200.0 million for energy efficiency and renewable energy programs.

Attachment III contains a summary of the Governor's proposed allocations for the Climate Change initiatives.

The Internal Services Department reports that while there are no direct impacts to the County's programs or operations, there may be a number of funding opportunities in these areas.

Emergency Drought Response. The Governor's Budget proposes \$323.1 million (\$212.1 million State General Fund), on a one-time basis, to continue the immediate response to the drought. Specifically, the proposal includes:

- \$15.0 million for the Department of Water Resources Urban Water Conservation and the Save our Water Campaign;
- \$16.0 million for emergency drinking water projects;
- \$95.0 million for various water conservation programs;
- \$12.0 million for drought management and response;
- \$26.7 million for disaster recovery support; and
- \$77.4 million for enhanced fire protection.

The budget plan includes an additional \$215.0 million for higher anticipated emergency wildfire suppression costs as a result of the drought, including a response to address significant tree mortality throughout the State.

Proposition 1, Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Water Bond). The voter-approved Water Bond provides \$7.5 billion in general obligation bonds for water storage, water quality, flood protection, and watershed protection and restoration projects. The Department of Public Works (DPW) reports that the Governor's Budget appears to be consistent with the program development and grant solicitation schedules maintained by the State on their Proposition 1 website. DPW staff consistently monitors those schedules and participates in the development of the various Water Bond programs to ensure eligibility of our projects. Of note in the Governor's Budget is funding for the following:

- Manage and Prepare for Dry Periods - \$3.0 million for the Department of Water Resources to identify water delivery operational improvements in extreme conditions and evaluate long-term climate change impacts on statewide water supplies.
- Investment Strategy - \$1.2 million for the Department of Water Resources to strengthen coordination and performance evaluation across State and regional agencies and develop a long-term investment and financing strategy for the Water Action Plan.

The Department of Public Works will continue to monitor the Water Bond implementation and will report on any anticipated funding opportunities for the County.

Figure HHS-03
2011 Realignment Estimate at 2016-17 Governor's Budget
(Dollars in Millions)

	2014-15	2014-15 Growth	2015-16	2015-16 Growth	2016-17	2016-17 Growth
Law Enforcement Services	\$2,078.3		\$2,289.1		\$2,418.2	
Trial Court Security Subaccount	518.1	14.5	532.5	12.9	545.4	13.8
Enhancing Law Enforcement Activities	489.9	57.8	489.9	80.5	489.9	99.3
Community Corrections Subaccount	934.1	173.4	1,107.5	96.8	1,204.3	103.4
District Attorney and Public Defender	15.8	8.5	24.3	6.5	30.8	6.9
Juvenile Justice Subaccount	120.4	14.5	134.9	12.9	147.8	13.8
<i>Youthful Offender Block Grant Special Account</i>	(113.8)	(13.7)	(127.5)	(12.2)	(139.6)	(13.0)
<i>Juvenile Reentry Grant Special Account</i>	(6.6)	(0.8)	(7.4)	(0.7)	(8.2)	(0.8)
Growth, Law Enforcement Services		268.7		209.6		237.2
Mental Health²	1,120.6	13.4	1,120.6	12.0	1,120.6	12.8
Support Services	3,022.1		3,277.6		3,505.2	
Protective Services Subaccount	1,970.7	138.5	2,109.2	107.8	2,217.0	115.2
Behavioral Health Subaccount ³	1,051.4	117.0	1,168.4	119.8	1,288.2	128.0
<i>Women and Children's Residential Treatment Services</i>	(5.1)	-	(5.1)	-	(5.1)	-
Growth, Support Services		268.9		239.6		256.0
Account Total and Growth	\$6,758.6		\$7,136.5		\$7,537.2	
Revenue						
1.0625% Sales Tax	6,210.9		6,566.1		6,948.0	
Motor Vehicle License Fee	547.7		570.4		589.2	
Revenue Total	\$6,758.6		\$7,136.5		\$7,537.2	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

¹ Base Allocation is capped at \$489.9 million. Growth does not add to the base.

² Base Allocation is capped at \$1,120.6 million. Growth does not add to the base.

³ The Early and Periodic Screening, Diagnosis, and Treatment and Drug Medi-Cal programs within the Behavioral Health Subaccount do not yet have a permanent base.

Governor's 2016-17 Cap and Trade Expenditure Plan
(Dollars in Millions)

Investment Category	Department	Program	Amount
Continuous Appropriations	High-Speed Rail Authority	High-Speed Rail Project	\$500
	State Transit Assistance	Low Carbon Transit Operations	\$100
	Transportation Agency	Transit & Intercity Rail Capital Program	\$200
	Strategic Growth Council	Affordable Housing and Sustainable Communities Program	\$400
50 Percent Reduction in Petroleum Use	Transportation Agency	Transit & Intercity Rail Capital Program	\$400
	Caltrans	Low Carbon Road Program	\$100
	Air Resources Board	Low Carbon Transportation & Fuels	\$500
	Energy Commission	Biofuel Facility Improvements	\$25
Local Climate Action	Strategic Growth Council	Transformational Climate Communities	\$100
Short Lived Climate Pollutants		Black Carbon Woodsmoke	\$40
	Air Resources Board	Refrigerants	\$20
	Cal Recycle	Waste Diversion	\$100
	Department of Food and Agriculture	Climate Smart Agriculture – Healthy Soil and Dairy Digesters	\$55
Safeguarding California/ Water Action Plan	Departments of Food and Agriculture & Water Resources	Water and Energy Efficiency	\$30
	Energy Commission	Drought Executive Order – Water and Energy Technology & Appliance Rebates	\$60
	Department of Fish and Wildlife	Wetlands and Watershed Restoration/CalEcoRestore	\$60
Safeguarding California / Carbon Sequestration	Cal Fire	Healthy Forests	\$150
		Urban Forestry	\$30
	Natural Resources Agency	Urban Greening	\$20
Energy Efficiency / Renewable Energy	Department of General Services	Energy Efficiency for Public Buildings	\$30
	I Bank	California Lending for Energy & Environmental Needs Center	\$20
	Conservation Corps	Energy Corps	\$15
	Department of Community Services and Development	Energy Efficiency Upgrades/ Weatherization	\$75
	UC / CSU	Renewable Energy and Energy Efficiency Projects	\$60
Total			\$3,090